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rec'd 8/4/80

Surveys of Consumer Attitudes

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JULY SURVEY RECORDS SECOND MONTHLY IMPROVEMENT

**In the July 1980 survey, the Index of Consumer Sentiment was 62.3, up 3.5 Index points from the June survey, and more than 10 Index points above the all-time record low of 51.7 recorded in May 1980. The recent improvement in consumer sentiment was due to improved evaluations of personal finances and buying conditions. Lower rates of inflation and lower interest rates were responsible for these improvements.

**Among families with incomes of $20,000 and over, the Index figure rose to 67.6 in July, from 61.7 in June 1980. This represents the third monthly increase since the record low level of 52.5 was recorded in April 1980. The July 1980 high-income Index figure was nearly identical to the year-earlier reading of 67.2.

**Both short and long-term evaluations of personal finances recorded modest improvements in the July 1980 survey. Among all families, 26 percent expected to be better off financially in a year (up from 20 percent a year earlier) and 45 percent expected to be better off financially in five years (up from 38 percent a year earlier).

**In July 1980, 25 percent of all respondents expected business conditions to worsen in the year ahead, down from 32 percent in June and 43 percent in July 1979. The proportion who expected conditions to improve has increased to 28 percent in July 1980 from 11 percent in July 1979. Despite this improvement, 74 percent of all respondents continued to expect bad times financially in the economy as a whole in the year ahead.

**On average, consumers expected prices to increase by 9.0% in July, up from 8.1% in June. Increasing unemployment was expected by 59 percent of all families, down from the 72 percent reported in May 1980.

**Attitudes toward buying conditions for houses and household durables improved significantly over recent months, but were still less favorable than year-earlier readings. Attitudes toward buying conditions for automobiles were unchanged from both the June 1980 and year-earlier readings. In all three markets, unfavorable references to high interest rates declined markedly from recent months.

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The June and July 1980 surveys recorded the largest two-month increase in consumer sentiment since the current decline began three years ago. These monthly improvements, while they may well foreshadow additional future gains, still leave consumer attitudes and expectations at greatly depressed levels. Although the balance of the survey evidence points toward the end of the downward momentum, the momentum has not shifted toward increasing optimism. Renewed and significant declines below the record low levels recorded earlier in 1980 are less likely than continued low levels yielding only slowly to improvement.

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Personal Finances

Modest improvements in both short and long term evaluations of personal finances were recorded in the July 1980 survey. The proportion of households who reported being better off financially than a year earlier increased to 30 percent in July from 25 percent in June 1980, corresponding with more frequent mentions of recent income increases. Nonetheless, the proportion of households who reported being worse off financially still exceeds the proportion who report being better off by a margin of 40 to 30 percent.

Expected changes in personal finances were also somewhat more favorable in the July 1980 survey than a month or year earlier readings. In July 1980, the proportion who expected to be better off financially exceeded the proportion who expected to be worse off by the small margin of 26 to 21 percent, although this represents a significant improvement from the negative balance of 20 versus 28 percent recorded a year earlier.

Expected nominal income increases were less favorable in the July 1980 survey than one month and year earlier figures. The proportion of households who expected family income increases of 10% or more fell to 25 percent in July 1980 from 33 percent in June, while the proportion of households who reported that they expected income declines in the year ahead rose to 18 percent in July from 12 percent in June 1980. Despite the decline in nominal family income expectations, families less frequently reported real income declines in July 1980 (56 percent) than in August 1979 (61 percent), and less frequently expected real income declines in the year ahead in July 1980 (45 percent) than in July 1979 (54 percent).

Evaluations of personal financial progress during the past 5 years were unchanged in the July 1980 survey from year earlier readings. In July 1980, 50 percent of the families reported that they were better off financially compared with 5 years earlier, identical to the 50 percent recorded in 1979 (see the table below). The proportion of families who expected to be better off financially in the next 5 years rose to 45 percent in the July 1980 survey from 38 percent in 1979, while the proportion who expected to be worse off in the 5 years ahead declined to 16 percent in July 1980 from 22 percent in the year earlier survey.

Current Financial Situation Compared to 5 Years Ago

	Aug-Sept 1968	May-June 1969	Oct-Nov. 1970	Oct-Nov. 1971	May 1972	Feb. 1974	Aug-Sept 1974	Feb. 1975	Aug-Sept 1976	Nov-Dec. 1976	May 1977	Nov-Dec. 1977	Feb. 1979	Aug. 1979	Feb. 1980	Apr-June 1980
Better	53	57	50	56	59	55	51	51	53	50	55	52	51	50	51	50
Same	23	20	21	19	18	16	16	13	13	14	13	14	15	11	12	13
Worse	21	20	25	21	19	24	28	32	30	34	30	32	33	37	35	35
DK, NA	3	3	4	4	4	5	5	4	4	2	2	2	1	2	2	2

Expected Financial Situation in 5 Years

	Aug-Sept 1968	May-June 1969	Oct-Nov. 1970	Oct-Nov. 1971	May 1972	Feb. 1974	Aug-Sept 1974	Feb. 1975	Aug-Sept 1976	Nov-Dec. 1976	May 1977	Nov-Dec. 1977	Feb. 1979	Aug. 1979	Feb. 1980	Apr-June 1980
Better	43	50	42	47	50	39	39	45	46	45	45	39	37	38	39	45
Same	28	28	23	17	28	24	25	25	26	25	31	34	34	34	29	30
Worse	8	10	12	8	6	16	15	12	11	12	15	15	21	22	26	16
DK, NA	21	12	23	28	16	21	21	18	17	18	9	12	8	6	6	9

Business Conditions

News of spreading unemployment dominated recent changes in business conditions heard and recalled by respondents in the July 1980 survey. Among all respondents, 43 percent mentioned increasing unemployment in the July survey, up from 16 percent in July 1979. During the past year, reports of price increases fell from 20 percent in July 1979 to 12 percent in July 1980. In recent months, news heard of high interest rates and tight credit conditions fell from 24 percent in April to just 5 percent in July 1980, while news of lower interest rates and easier credit conditions were mentioned by 7 percent in July, up from less than 1 percent in April 1980.

Current business conditions continue to be judged as unfavorable by the overwhelming majority of consumers. In the July 1980 survey, 85 percent of all respondents felt business conditions had worsened during the past year, somewhat below the 90 percent recorded in June 1980. Greater improvement was recorded in short term business expectations. For the first time in almost two years, more respondents expected business conditions to improve rather than to

worsen during the year ahead, although by the slim margin of 28 to 25 percent. In comparison, in the July 1979 survey the proportion who expected business conditions to worsen exceeded the proportion who expected improvement by a 43 to 11 percent margin.

The expectation of better business conditions, however, does not imply the expectation of good times financially in the economy as a whole. Despite the expected improvement in business conditions, 74 percent of all families expected bad times financially in the economy as a whole in the year ahead in July, unchanged from the June 1980 reading (75 percent) and the July 1979 reading (74 percent). The expected slow improvement in the economy was, however, reflected in the small improvement in long-term business expectations. Among all families, 61 percent expected bad times in the economy as a whole during the next five years in July 1980, down from 70 percent in July 1979, while good times financially were expected by 19 percent in July 1980, up from 10 percent in July 1979.

Among all households, interest rates were more frequently expected to decline than increase in the year ahead by a margin of 44 to 21 percent in July 1980. Somewhat fewer consumers reported that they expected declines in the July 1980 survey (44 percent) than in June 1980 (54 percent), but significantly more frequently than in July 1979 (12 percent). Interest rate expectations shifted dramatically following the March 1980 announcement, and have since then moved significantly toward expectations of future reductions.

Unemployment expectations improved somewhat from the levels recorded earlier in 1980. Among all families, 59 percent expected unemployment to increase in the year ahead in July 1980, significantly below the 72 percent reported in May 1980. On average, consumers expected prices to increase by 9.0 percent in July 1980, up from 8.1 percent in June, but below the 10.8 percent recorded in July 1979. Fewer respondents expected price increases of 10% or more in comparison with a year earlier (from 45 to 37 percent in July 1980), and more frequently expected prices to remain the same or decline (from 12 to 22 percent in July 1980).

Despite the small improvement in unemployment expectations and the deterioration in inflation expectations, the July 1980 survey marked the first time since the 1974-75 recession that a greater proportion of respondents felt unemployment rather than inflation was the more serious economic hardship facing the nation. In July 1980, unemployment rather than inflation was seen as the more serious economic hardship by a margin of 45 to 41 percent, representing a

significant shift from the year-earlier reading when inflation rather than unemployment was seen as more serious by a margin of 62 to 26 percent.

Confidence in government's economic policy to combat inflation and unemployment remained at low levels in the July 1980 survey. Among all households, 47 percent rated government economic policy as poor in July 1980, largely unchanged from the month earlier (46 percent) and year earlier (48 percent) readings. The mid-1979 and mid-1980 levels of confidence in government economic policy represent the lowest levels recorded under the Carter administration.

Buying Attitudes

Attitudes toward buying conditions for household durables improved significantly during the past two months. In the July survey 44 percent of all families held favorable attitudes, up from 41 percent in June and 35 percent in May 1980. Unfavorable evaluations of market conditions for durables declined to 40 percent in July from 48 percent in June and 58 percent in May 1980. Attitudes nonetheless remained less favorable than year-earlier readings, when 60 percent evaluated buying conditions for durables as favorable, opposed to 30 percent with unfavorable ratings. The recent improvement in attitudes toward durable buying conditions was due to more frequent mentions of low prices in July (19 percent) than in May 1980 (14 percent), while complaints of high prices declined in July (23 percent) from the May 1980 level (34 percent). Mentions of high interest rates and tight credit conditions making buying conditions unfavorable fell from 31 percent in May to 19 percent in July 1980.

Attitudes toward buying conditions for houses also improved in the July 1980 survey. Among all families, 34 percent rated buying conditions for houses as favorable in July, up from 29 percent in June and 18 percent in May 1980. Unfavorable evaluations of buying conditions for houses fell to 58 percent in July from 66 percent in June and 74 percent in May 1980. There were significantly fewer mentions of high interest rates and tight credit conditions in July (53 percent) than in June (66 percent) or May 1980 (75 percent), and more frequent mentions of lower interest rates and available credit in July (23 percent) than in June (16 percent) or May 1980 (6 percent). Overall, attitudes toward buying conditions for houses remained significantly less favorable than year earlier readings.

Attitudes toward buying conditions for automobiles were unchanged in the July survey from the June 1980 reading, although somewhat improved over the

May 1980 low. Among all families, 36 percent felt buying conditions for automobiles were favorable, unchanged from the 37 percent recorded in June 1980, and above the 29 percent recorded in May 1980. Unfavorable evaluations of buying conditions for vehicles were held by 50 percent in July 1980, unchanged from June, and below the 61 percent recorded in May. In contrast to attitudes toward buying conditions for household durables and houses, attitudes toward buying conditions for automobiles in July 1980 stood largely unchanged from year earlier readings. In July 1979 32 percent rated buying conditions favorable compared with 36 percent in July 1980, while 52 percent rated buying conditions unfavorably in July 1979 and 50 percent in July 1980. Respondents more frequently mentioned the appeal of low prices and good buys (25 percent in July 1980 compared with 11 percent in July 1979), and fewer respondents mentioned problems of gas shortages (6 percent in July 1980 compared with 25 percent in July 1979). Unfavorable references to high interest rates and tight credit conditons declined to 11 percent in July from 22 percent in June and 29 percent in May 1980.

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The July 1980 survey included 668 interviews conducted between June 23 and July 22, 1980.